GLOSSARY OF BANKING, BUSINESS, AND FINANCIAL TERMS

A

Accountant – A financial advisor who keeps, audits and inspects the financial records of individuals or businesses and prepares financial and tax returns.

Accounting Period – A regular period of time, such as a quarter or year for which a financial statement produced.

Accounts Payable – Debts owed to creditors.

Accounts Receivable – Debts owed to a business, usually due from customers for goods or services purchased from the business.

Accrued Interest – Interest earned but not yet credited to an account.

Amortization –
- An accounting practice of gradually decreasing an asset's book value spreading its depreciation over time.
- The gradual reduction of a dept by making periodic principal payments.

Annual Percentage Rate (APR) – The cost of credit on an annual basis. APR is expressed as a percentage, resulting from an equation that considers three factors: the amount financed, the finance charge and the terms of the loan.

Annual Percentage Yield (APY) – The return earned on an investor's capital investment, expressed as a percentage.

Appreciation – An increase in the value of an asset.

Asset – Anything that has commercial or exchange value that is owned by a business or an individual.

Asset-Based Loan (ABL) – Financing that provides credit secured by a company's balance sheet assets. Such as inventory, accounts receivable or other collateral other than real estate.

Assign – To transfer ownership of an asset to another party by signing a document.

Audit – Inspection and verification of financial accounts records and accounting procedures.

Audit Trail – A chronological record of systems activity or banking transactions that is sufficiently clear and detailed to enable reconstruction and examination of a sequence of events.

Available Balances – The balances in an account that can be invested, disbursed or wired out.

B

Balance Sheet – Financial statement showing assets on the left side and liabilities on the right. A balance sheet provides an overview of a company's financial position at the given time, usually at the close of a month. Unlike a profit and loss statement, which shows the result of operations over a period of time, a balance sheet shows the state of affairs at one point in time.

Balance Reporting System – A system whereby a corporate customer is provided with detailed account activity and balances daily. These systems are often automated and on-line.

Balloon Payment – The last payment on a loan, significantly larger than previous installments, which pays the loan in full.

Bank Statement – A periodic statement of a customer's account detailing credits (deposits) and debits (withdrawals) posted to the account during a specific time period and the book balance as of the statement cut off date.

Basis Point – One basis point is calculated as 1/100th of a percentage point.

Boilerplate – Standardized "fine-print" language in a contract or other agreement detailing terms and conditions.

Break-Even Point – Volume of sales at which total costs equal total revenues. Sales above this volume generate profits.

Broker – Individual or company authorized to buy or sell something for another party without ever owning the goods.

Business Plan – A detailed description of a new or existing business, including the company's product or service, marketing plan, financial statements and projections and management principles.

Bottom Line – The net profit or loss from a business.

C

Capital – Property of a business, including money, used to conduct its business.

Capital Expenditure – Purchase of long-term assets, especially of equipment, used in manufacturing a product.

Cash Flow – Incoming cash less outgoing cash during a given period.

Cash Management – The systematic gathering of information about a business' collections, disbursements, and balances and the use of that information to effectively manage the funds available to the business.

Character – The combination of qualities or features especially moral or ethical strengths that distinguishes one person from another. Character is an extremely important consideration for lenders when giving loans.

Chief Executive Officer (CEO) – The person who holds the highest position of authority within a company or organization.

Chief Financial Officer (CFO) – The person who holds the highest financial authority within a company or organizations. Responsibilities include handling funds, signing checks, keeping financial records and doing financial planning.

Closely Held Business – A business privately owned and run by a few individuals. If the individuals are related, also know as a Family Business.

Collateral – Property that is offered to secure a loan or other credit and that becomes subject to seizure upon default.

Commercial Credit – Short-term credit extended by a seller to the buyer to finance the purchase of a product or service.

Compensating Balance – Money required by a bank to be left in a deposit account as part of a loan agreement.

Compound Interest – Interest earned on previously accumulated interest as well as the principal.

Controlled Disbursement – A checking account service that provides a detailed summary of all activity having an impact on a customer account each business day.

Corporation – Form of business ownership that is a legal entity on its own in which stockholders and the board of directors are in control.

Covenant – A promise in a debt agreement that certain things will happen and others will not.

Credit Advice – A written bank notice that describes the crediting of funds to a specific account.

Credit Bureau – Company that compiles and maintains information on consumer credit and provides the information to potential creditors for a fee.

Credit Rating – Evaluation of an individual or corporation's history of repaying past loans. Credit ratings are used as a benchmark to assess the future ability of a creditor to pay back loans.

Current Ratio – Calculation of current assets divided by current liabilities, measuring the ability of a company to pay its current obligations from current assets.

Current Assets – Cash or other assets that the business expects to use in the operation of the company within one year.

Current Liabilities – Debts that the business expects to pay within one year.

Current Yield – The dividends or interest paid, expressed as a percentage of the current price of a security; also known as the current rate of return.

D

Debit Advice – A written bank notice that describes the withdrawal of funds from a specific account.

Debt – An obligation to repay money, goods or services in accordance with an agreement.

Debt Ratio – Calculation of total liabilities divided by total liabilities plus capital, measuring the debt level of the business (leverage).

Debenture – Debt secured by the creditor based on the general credit-worthiness of the debtor, as opposed to security based on specific assets.

Default – Failure of a borrower to make interest and/or principal payments when due.

Demand Deposit Account (DDA) – Funds that are available to a bank customer at any time and which require no advance notice of withdrawal. A non-interest bearing checking account is the most common form of a DDA.

Demand Loan – A loan with no fixed maturity date, and payable at the discretion of the bank.

Deposit Cutoff – Time of day before which checks must be deposited at a bank in order to ensure that the funds are credited on the same day.

Depreciation – Decrease in the value of equipment from wear and tear and the passage of time. Depreciation on business equipment is generally deductible (over a period of time) for tax purposes.

Direct Loans – Financial assistance provided through the lending of federal monies for a specific period of time, with a reasonable expectation of repayment. Such loans may or may not require the payment of interest.

Disaster Loans – Various types of physical and economic loan assistance are available to individuals and businesses that have suffered loss due to natural disaster. This is the only SBA loan program available for residential purposes.

Disbursement – Payment made to satisfy a debt or other financial obligation.

Discount Rate – The rate of interest charged by the Federal Reserve on loans it makes to member banks. This rate has an influence on the rates banks charge their customers.

Distribution – Payment made to the owner(s) of an asset, such as stock dividends or funds in a retirement plan.

Dividend – Distribution of earnings to shareholders.

E

Earnings Credit Rate (ECR) – Rate used by a bank to determine the earnings allowance for a customer's demand deposit balances. Such allowances are used to offset bank fees. This rate is usually indexed to some market rate.

Electronic Funds Transfer System (EFTS) – The paperless transfer of funds.

Endorsement – Refers to the signature placed on the back of a check which transfers that check or note to another party.

Enterprise – A business venture.

Equity – The value of an asset that exceeds any claim or lien on it. In banking, the difference between the market value of an asset and the amount of claims (such as mortgages) against it. In investing, equity refers to financing by means of shareholders investment in a venture, usually through stock. Equity financing is the major alternative to debt financing (borrowing.)

Escrow – Temporary deposit with a third party of assets by agreement between two parties to a contract. The money is released when the conditions of the contract have been met.

Expense Account – Account often used by salespersons or executives for travel and entertainment expenses.

Extraordinary Items – Unusual or nonrecurring event that must be explained to shareholders.

F

Factoring – Type of accounts receivable financing in which receivables are assigned to a factoring company which is responsible for collecting the receivables.

Federal Deposit Insurance Corporation (FDIC) – A federal agency that guarantees (within limits) funds on deposit in member banks and performs other functions, such as making loans to or buying assets from member banks to facilitate mergers or prevent failures.

Federal Reserve – The central money authority of the United States. The Federal Reserve system is divided into 12 districts, each having its own reserve bank. Each of the 12 regional banks is owned by the member banks in its district.

Fiduciary – Person or company entrusted with assets owned by an-other party (beneficiary), and is responsible for investing the assets until they are turned over to the beneficiary.

Financial Projections – Estimates of the future financial performance of a company.

First In, First Out (FIFO) – A system of inventory valuation where items purchased earliest are considered to have been used first in the firm’s operations. The result is that the cost of items purchased most recently is assigned to the inventory on the firm’s financial statements.

Fiscal Year – Any 12-month period used by a company or government as an accounting period.

Float – The processing period between the time that a check is presented for payment and then delivered to the issuer’s bank for payment. During this period, the issuer is still earning interest on his money and the payee is waiting for funds to be collected.

Foreign Exchange – The trading in or exchange of foreign currencies in relation to U.S. funds or other foreign currencies.

G

General Ledger (GL) – Consolidated summary books of account for a business entity. The GL provides the bases for all published statements of condition.

Goodwill – An intangible asset that arises from considerations such as a company's strong reputation, favorable location and good customer relations.

Grace Period – Time allowed a debtor in which the creditor will not undertake legal action when payment is late.

Gross Profit – Revenues of the business before consideration of operating expenses, calculated by subtracting cost of goods sold from net sales.

Guarantee – Pledge by a third party to repay a loan in the event that the borrower cannot.

Guaranteed/Insured Loans – Programs in which the federal government makes an arrangement to indemnify a lender against part or all of any defaults by those responsible for repayment of loans.

Guarantor – A third party who promised to repay a loan if the borrower does not.

H

Home Equity Line of Credit – Credit line offered by banks and brokerage firms that allow a homeowner access to the built-up equity in his or her home.

Hypothecation – The pledging of property as collateral for a loan. The bank is not given the title to the property, but has the right to sell it in the event of default.

I-K

Identification Number – a/k/a EIN or FIN. A number obtained by a business from the IRS by filing application form SSA. This number is to be shown on all business tax returns, documents and statements. Wholesalers often request this number when offering wholesale prices to retailers.

Income Statement – Financial statement that provides a historical perspective about a company's revenues, costs, and profitability for a specific time period. Also called profit and loss statement.

Incorporation – A legal process through which a company receives a charter and the state in which it is based allows it to operate as a corporation. A corporation is a legal entity that is separate from its owners, the shareholders. No shareholder of a corporation is personally liable for the debts, obligations or acts of the corporation.

Incubators – Incubators provide a facility within which a number of enterprises may share services that are common business overhead expenses, such as meeting areas, secretarial services, and accounting and bookkeeping. In this manner they encourage entrepreneurship and minimize obstacles to new business formation and growth.

Indemnity – Obligation of one party to reimburse another party for losses that have occurred or which may occur.

Inventory – Value of a business' raw materials, work in process, supplies used in operations, and finished goods.

Investor – Individual who takes an ownership position in a company, thus assuming risk of loss in exchange for anticipated returns.

Idle Funds – Available funds in an account, in excess of the compensating balances requirement, that have not been invested or put to use.

Insolvency – The state of being unable to pay one's debt obligations when they become due.

Installment Loan – Loans that are repaid in fixed, periodic payments.

Joint Account – Any investment, charge, bank account or other account that lists two or more persons who share equally in the rights and liabilities associated with the account.

L

Lease Financing – A specialized area of equipment finance whereby the owner of a specific piece of equipment agrees to rent the equipment for a specified time period to the user of that equipment.

Letter of Credit (LOC) – An instrument issued by a bank to an individual or corporation, by which the bank substitutes its own credit for that of the individual or corporation.

Leverage – The process of incurring debt in order to continue or expand the scope of a business operation. An enterprise is said to be highly leveraged if it relies heavily on debt financing as opposed to equity financing.

Liability – A financial obligation, or the cash outlay that must be made at a specific time to satisfy the contractual terms of such an obligation.

Lien – Legal right to hold property of another party or to have it sold or applied in payment of a claim.

Line of Credit – A financial institution's promise to lend up to a specific amount during a specific time frame.

Liquid Assets – Business assets easily convertible into cash.

Liquidation – Sale of the assets of a business to pay off debts.

Local Development Corporation – An organization, usually made up of local citizens, designed to improve the economy of the area by inducing business and industry to locate there. A local development corporation usually has financing capabilities.

Loan – The rental of money.

Loan Agreement – A document that outlines the terms and conditions of a loan.

Lockbox – A service provided by the bank whereby the customer's mail, containing payments, bypass corporate offices and is sent directly to the bank for deposit. This reduces the collection float.

London Inter-bank Offered Rate (LIBOR) – An international inter-bank rate, sometimes used as a pricing mechanism for commercial loans.

M

Magnetic Ink Character Recognition (MICR) – The process by which the information magnetically encoded in the printed characters; located on the bottom of checks is optically scanned and read by computer.

Money Market Account – A limited-transaction, interest-bearing corporate or personal account.

Mutual Funds – A fund operated by an investment company that raises the money from shareholders and invest it in stocks, bonds, options, commodities or money market securities.

Marginal Cost – Additional cost associated with producing one more unit of output.

N

Net Income – Sum remaining after all expenses have been met or deducted: net profit or net loss.

Net Worth – Excess of assets over debt.

Non-bank Lenders – Any commercial lender not classified as a bank. Examples include investment companies, savings & loan associations, credit unions, lending units of major corporations, mortgage companies, venture capitalists, development corporations, insurance companies, and independent lenders.

Negotiable Instrument – An unconditional order or promise to pay an amount of money, easily transferable from one person to another. Examples include checks, promissory notes or bills of exchange.

Net Worth – The excess of assets over liabilities.

Note – An instrument that outlines the repayment terms of a loan.

Not Sufficient Funds (NSF) – A term indicating that the amount of a requested withdrawal is greater than the amount of money currently in the account.

O

Operating Expenses – Costs associated with the day-to-day activities of the business.

Operating Profit/Loss – Income (or loss) before taxes and extraordinary items (resulting from transactions other than those in the normal course of business) are deducted.

Outsource – To obtain products or services formerly delivered in-house from an external supplier.

Overdraft – The result of drawing checks on a bank account for more than the balance of the account.

Overhead – Business expenses not directly related to a particular good or service produced. Examples are insurance, utilities, and rent.

P

Partnership – A company owned by two or more people, who are jointly and personally liable for debts and assets of the company. General partners, who have control, have unlimited liability; limited partners have limited liability.

Prime Rate – The interest rate that banks charge their best commercial customers. Rates charged to other borrowers are often expressed in terms of the prime rate plus a specified number of percentage points.

Principal – The currently unpaid balance of a loan, not including interest owed.

Profit Sharing – Compensation arrangements whereby employees receive additional pay or benefits when the company earns or increases profits.

Prompt Pay – If federal government agencies do not pay invoices for goods and services within 45 days of billing, they have to pay interest to the vendor on any amount overdue.

Personal Identification Number (PIN) – A code, usually four or seven digits long, that customers use to access their accounts at ATM locations and when conducting transactions by phone.

Power of Attorney – The legal contract by which one party is authorized to act on behalf of another.

Prime Rate – The interest rate banks charge tot their most creditworthy customers. Also refereed to as the Base Lending Rate (BLR)

Profit – What is left after taxes are paid.

Pro Formas – Financial statements prepared based on assumptions of future events that will affect the expected condition of the company.

Q/R

Qualified Plan or Trust – An employer's plan or trust for the benefit of his or her employees or their beneficiaries. Usually used with retirement plans, a qualified plan or trust entitles the employer to deduct the payments made to the plan or trust for income tax purposes.

Quasi-Public Corporation – A corporation that is operated privately but with a public mandate and sometimes with government backing.

Receivable Financing – Type of financing in which a business borrows money with the expectation of repaying it quickly upon the receipt of certain receivables. The receivables are pledged as collateral on the loan.

Receivables – Unsettled claims and transactions representing money owed to a creditor, usually the result of a sale of the creditor's product or service. Also referred to as Accounts Receivable and listed as a current asset on the balance sheet.

Retained Earnings – Net profits kept to accumulate in a business after dividends are paid.

S

Seasonality – Changes in business, employment or buying patterns, which occur predictably at given times of the year.

Seed Money – Funds used to start a new business or to finance a new venture by an existing firm.

Simple Interest – Interest paid only on the principal of a loan. No interest is paid on interest accrued during the term of the loan.

Sole Proprietorship – Business or financial venture in which the owner has full control and unlimited liability.

Stale Dated Check – A check dated six months or more prior to being cashed.

Stop Payment – A depositor's instructions to the bank directing it to dishonor a specific check.

Surety Bonds – Surety bonds provide reimbursement to an individual, company or the government if a firm fails to complete a contract. SBA guarantees surety bonds in a program much like SBA's guaranteed loan program.

T

Tax Number – A number assigned to a business by a state revenue department that enables the business to buy wholesale without paying sales tax on goods and products. Contact the state government's department of revenue.

Term Loan – Credit granted to a company to finance capital equipment, fixed assets or real estate with a repayment term of greater than one year.

Time Deposit – An account on which time limitations on withdrawal are required in order to receive a given return. Penalties for early withdrawal are usually applicable. An example of a time deposit is a Certificate of Deposit (CD)

Transit Routing Symbol (TRS) – The number on the face of a check that facilitates routing for collection funds from the drawee bank by the Federal Reserve. TRS appear in the magnetically encoded line at the bottom of the check as well as in the upper right-hand corner.

U

Uncollected Funds – The portion of a deposit balance not yet collected by the depository bank.

Unsecured Loan – An obligation not backed by specified assets.

U.S. Treasury Bills (T-Bills) – Direct obligations of the U.S. Government. T-bills with three and six month maturities are sold weekly so that bills maturing each week up to six months are available in the secondary market. T-bills are sold at a discount, with the amount of the discount determining the investment return.

V / W

Variable Cost – Any costs which change significantly with the level of output.

Variable Rate – A rate on a note that is adjusted up or down each time the base rate changes.

Variance – A variance allows an exception to certain development standards such as setbacks, building height, lot dimensions and other zoning code requirements.

Venture Capital – Money used to purchase an equity stake in a new or existing enterprise; equity, risk or speculative investment capital. This funding is usually provided to new or existing firms that exhibit potential for above-average growth.

Wire Transfer – A transaction by which funds are moved electronically from one bank to another upon the customer's instructions.

Withdrawal – The removal of money or valuables from a bank or other place of deposit.

Working Capital – The difference between the firm's current assets and current liabilities. This is also the amount of money available for use in operating the business.

X/Y/Z

Zero Balance Account (ZBA) – A unique type of corporate checking account that companies use for disbursement control, where a daily closing balance of zero is maintained. At the close of each business day, a transfer of funds is made from a corporation's master account to cover the total amount of checks drawn on the ZBA that arrived for payment that day. This returns the account to a zero balance. Corporations that want central cash control while allowing decentralized disbursing operations typically use ZBA's. (*Note: The letters ZBA also stand for the City of Boston's Zoning Board of Appeals.)*

Zoning – The public regulation of the use of land. It involves the adoption of ordinances that divide a community into various districts or zones. Each district allows certain uses of land within that zone, such as residential, commercial, or industrial. Typical zoning regulations address building height, bulk, lot area, setbacks, parking, signage, and density.